

Half-Year Report 2017



PRECIOUS WOODS

Precious Woods is one of the world's leading companies in sustainable management of tropical forests globally.
Additional information can be found at www.preciouswoods.com

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First half-year 2017: Increase in sales by 7.5 % – EBIT margin of 8.1 % – positive net result

Earnings before interest and taxes (EBIT) of EUR 1.8 million were generated in the first half-year 2017. This is an improvement of EUR 0.5 million over the same period of the previous year. The increase is due to the country organizations in Gabon where the measures taken during the previous periods have shown effect. In Brazil, sales and the margin were lower than in the same period of the previous year. Production volumes remained constant. The net result was EUR 0.3 million (previous year period: EUR –0.4 million). The generated cash flow allowed the company to invest in productivity and a small reduction of debt. The working capital rose by EUR 2 million over the end of the year, due to inventory increases and a reduction of accounts payable.

The net sales of the Precious Woods Group in the first half-year 2017 were EUR 22.5 million and thus 7.5% higher than the same period of the previous year (EUR 20.9 million). The exchange rate effect was 0.4%. The saw mills in Gabon increased sales by 8.2%, with sales in the veneer plant rising by 12.5%. In Brazil, sales were 11.3% lower than in the previous year period. Sales from the trade of logs and sawn timber from Europe rose by 89.0%, achieving EUR 2 million.

Again in the first half-year, there were delivery delays of sawn timber due to strikes by the customs authorities in Gabon and Brazil. Production was not affected, but the inventory of sawn timber rose accordingly. The first half-year in Brazil is always a challenge because timber species that are less known in the sales markets must be processed and sold.

The gross profit was EUR 14.1 million and thus 11.2% higher than the previous year period (EUR 12.7 million). The gross profit margin was 63.0%, compared with 60.9% in the previous year. The improvement is due to higher yield in the saw mills in Gabon (+2 percentage points) and in the veneer plant (+6 percentage points). The yield in the saw mill in Brazil reached the level of the previous year. Earnings before interest, taxes, depreciation and amortization (EBITDA) was EUR 4.1 million (previous year: EUR 3.8 million), corresponding to a margin of 18.2%. Earnings before interest and taxes (EBIT) reached EUR 1.8 million (previous year: EUR 1.3 million), with a margin of 8.1%.

The financial result was EUR –1.3 million (previous year: EUR –1.8 million). The pure interest charge was EUR 1.1 million (previous year: EUR 1.4 million). The net profit amounted to EUR 0.3 million, representing an increase of EUR 0.7 million

over the same period of the previous year. The equity ratio was 27.0% (end of previous year: 28.1%). The change is due to exchange rate effects.

Working capital was EUR 13.5 million and thus about EUR 2 million higher than at the end of the previous year. While the log inventory was reduced, the sawn timber inventory increased by the same extent due to the delivery difficulties mentioned above. Trade receivables were at the level of the end of the previous year at EUR 5 million. Trade payables fell by EUR 2.2 million. Overall, net debt fell by EUR 0.6 million to currently EUR 30.0 million.

Operating cash flow was EUR 1.9 million (previous year: EUR 3.6 million). This includes the change in net working capital of EUR –1.5 million (previous year: EUR 0.4 million). Investments amounted to EUR 0.9 million (previous year: EUR 1.0 million).

Brief remarks on the individual companies:

Precious Woods Holding

No further cost savings – stable structure

The team continues to have 11 employees, of which 7 work in sales (3 field staff, 4 office staff).

Precious Woods Gabon

Increase in productivity and profitability

Production volumes in the saw mills increased by 6.4%, reaching 20 316 m³ (previous year: 19 087 m³). In the veneer plant, volumes increased by 13.0%, corresponding to production of 17 597 m³ (previous year: 15 573 m³). The two saw mills were negatively impacted in the first half-year by a planned maintenance interruption of 4 weeks each. Production in the second half-year will thus be higher.

Completed process optimizations, targeted investments, improvements in efficiency and productivity, and higher yield were seen in an increased operating result (EBITDA). At EUR 5.3 million, it was significantly higher than the comparison level (previous year: 3.2 million).

The logistical difficulties have hardly changed. The road from the saw mill to the port continues to be interrupted, resulting in a detour of about 140 km. Rail transport capacities were reduced due to maintenance. This resulted in minor delays which, however, were overcome. After the strike, the customs authorities worked only partially, leading to delayed and more difficult but ultimately fulfilled exports of sawn

timber. The banks in Gabon were cooperative, although the financial situation of the government is very tense. A loan by the World Bank should allow the government to at least partially reduce the value added tax debt it owes companies.

Precious Woods Amazon

Difficult first half-year

The production volume in the first half-year was 10% lower than in the same period of the previous year, amounting to 11 737 m³ (previous year: 13 116 m³). The reasons include later resumption of production in January due to maintenance work as well as overtime compensation from the previous year. Net sales were EUR 5.5 million, 11.3% lower than the previous year level of EUR 6.2 million. The operating result (EBITDA) shrank to EUR –0.1 million (previous year: EUR 1.7 million). The delayed sales, increased personnel costs, and the BRL/EUR exchange rate contributed to this worsening of the result. Deliveries were impaired until the beginning of March 2017 due to the strikes at the end of 2016.

Thanks to expansion investments, seasoning capacity was increased by 70% as of 1 June 2017. This will contribute to higher added value and achievable margins. Changes to the production process and reductions of the teams working in the forest will lead to an increase in productivity. The harvest began in July as planned and will be concluded in December. The order backlog for the new harvest is about 3 months.

The Brazilian government wants to grant concessions for sustainable management of forest areas in accordance with FSC guidelines. Precious Woods is acting in an advisory capacity and is also interested in receiving a larger concession. The goal of this expansion must be to increase the production volume and thus improve economic efficiency. This includes investments in the saw mill that can be financed through local banks.

Carbon & Energy

Emission trading (CER)

No trading in CER certificates took place in the first half-year. The contract was last renewed for a period of 6 years.

Share price

At the beginning of 2017, shares were trading at CHF 6.00 on the OTC ZKB platform; on 30 June 2017 (cut-off date for the interim report), the price was higher at CHF 6.10. The highest price was reached in May 2017 at CHF 6.16.

Outlook

As announced at the Annual General Meeting, we expect increased sales of >10% and a positive net result for the whole year 2017. The first half-year showed that we are on the right track. Production increases and inventory reduction will have a positive impact on the result.

The primary focus is on organic growth. We are also planning several projects to increase added value. Possible holdings or takeovers of other companies continue to be evaluated carefully.

We are not planning any further capital increase for now, but we have conditional and authorized capital at our disposal to take advantage of opportunities at short notice.

On behalf of the Board of Directors / Management



Katharina Lehmann
Chairwoman of the Board of Directors



Markus Brütsch
CEO / CFO
Delegate of the Board of Directors

Precious Woods Group Interim condensed consolidated financial statements as at 30 June 2017

Interim consolidated statement of financial position

in thousand EUR

	30 June 2017 unaudited	31 December 2016 audited
ASSETS		
Current assets		
Cash and cash equivalents	3 194	1 370
Trade and other receivables	10 447	9 785
Inventories	11 898	12 281
Other current assets	2 183	1 653
Total current assets	27 722	25 089
Non-current assets		
Property, plant and equipment	35 635	36 316
Intangible assets	5 035	5 575
Investments in associates	714	1 143
Non-current financial assets	479	491
Other non-current assets	633	675
Deferred income tax assets	—	—
Total non-current assets	42 496	44 200
TOTAL	70 218	69 289
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Trade and other payables	12 971	12 348
Current income tax liabilities	429	314
Short-term convertible loans	—	457
Current financial liabilities	11 954	11 544
Current provisions	1	1
Total current liabilities	25 355	24 664
Non-current liabilities		
Non-current financial liabilities	21 188	19 895
Deferred tax liabilities	—	—
Non-current provisions	4 689	5 290
Total non-current liabilities	25 877	25 185
Equity		
Share capital	5 734	5 595
Additional paid-in capital	64 948	64 641
Foreign currency translation reserve	8 037	9 263
Retained earnings	−59 854	−60 173
Equity attributable to owners of Precious Woods Holding Ltd	18 865	19 326
Non-controlling interests	121	114
Total shareholders' equity	18 986	19 440
TOTAL	70 218	69 289

Interim consolidated statement of profit or loss

in thousand EUR

	30 June 2017 unaudited	30 June 2016 unaudited
Net sales from trading activities	22 464	20 531
Revenue from emission reduction activities	–	366
Total revenue	22 464	20 897
Changes in inventories of finished goods and work in progress	–611	–188
Raw materials and consumables used	–1 679	–1 135
Other productions costs	–6 028	–6 856
Operational contribution	14 146	12 718
Direct and indirect labour costs	–8 522	–7 973
Other operating expenses	–1 634	–898
Other operating income	148	13
Share of profit/(losses) of associates	–57	–56
Earnings before interest, tax, depreciation and amortization (EBITDA)	4 081	3 804
Depreciation, amortization and impairment	–2 252	–2 467
Earnings before interest and tax (EBIT)	1 829	1 337
Financial income	225	271
Financial expenses	–1 494	–2 023
Earnings before tax (EBT)	560	–415
Income taxes (expenses)/income	–228	31
Net profit/(loss) for the period	332	–384
Allocation of net profit/(loss):		
Equity owners of Precious Woods Holding Ltd	325	–378
Non-controlling interests	7	–6
Basic earnings per share	0.06	–0.06
Diluted earnings per share	0.06	–0.06

Interim consolidated statement of comprehensive income

in thousand EUR

	30 June 2017 unaudited	30 June 2016 unaudited
Net profit/(loss) for the period	332	-384
Actuarial gains and losses	0	1
Tax effect on actuarial gains and losses	0	0
Items that will not be reclassified to profit or loss, net of tax	0	1
Unrealised gains and losses financial assets available for sale	-1	-0
Foreign currency translation differences	-1 231	2 240
Items that may be reclassified subsequently to profit or loss, net of tax	-1 232	2 240
Total other comprehensive income/(loss) for the period	-1 232	2 240
Total comprehensive income/(loss) for the period	-900	1 856
Allocation of total comprehensive income/(loss):		
Equity owners of Precious Woods Holding Ltd	-907	1 864
Non-controlling interests	7	-8

Interim consolidated statement of changes in equity

in thousand EUR	Attributable to equity holders of Precious Woods Ltd					Non-controlling interests	Total equity
	Share capital	Additional paid-in capital	Foreign currency translation reserve	Retained earnings	Total		
Balance 31 December 2015	3 835	58 818	6 627	-57 574	11 706	122	11 828
Net profit/(loss) for the period	–	–	–	–378	-378	–6	-384
Other comprehensive income/(loss) for the period	–	–	2 243	–1	2 242	–2	2 240
Total comprehensive income/(loss) for the period	–	–	2 243	-379	1 864	-8	1 856
Proceeds from issue of shares	1 665	5 673	–	–	7 338	–	7 338
Costs of capital increase/transaction costs	–	–107	–	–	-107	–	-107
Change in consolidation scope	–	–	–	19	19	–	19
Balance 30 June 2016	5 500	64 384	8 870	-57 934	20 820	114	20 934
Balance 31 December 2016	5 595	64 641	9 263	-60 173	19 326	114	19 440
Net profit/(loss) for the period	–	–	–	325	325	7	332
Other comprehensive income/(loss) for the period	–	–	–1 226	–6	-1 232	0	-1 232
Total comprehensive income/(loss) for the period	–	–	-1 226	319	-907	7	-900
Proceeds from issue of shares	139	307	–	–	446	–	446
Balance 30 June 2017	5 734	64 948	8 037	-59 854	18 865	121	18 986

Interim condensed consolidated statement of cash flows

in thousand EUR	30 June 2017 unaudited	30 June 2016 unaudited
Profit/(loss) for the period	332	–384
Operating cash flow before working capital changes	3 379	3 263
Net cash flow operating activities	1 880	3 625
Net cash flow investing activities	-837	-982
Net cash flow financing activities	863	-2 751
Increase/(decrease) in cash and cash equivalents	1 907	–108
Translation effect on cash	–82	73
Cash and cash equivalents, at the beginning of the year	1 370	3 510
Cash and cash equivalents, at the end of the period	3 194	3 475



Notes to the interim condensed consolidated financial statements

1. Basis of presentation and accounting policies

The unaudited interim condensed consolidated financial statements of Precious Woods Group for the six months ended 30 June 2017, have been prepared in accordance with IAS 34 and were authorized for issue by the Board of Directors on 15 August 2017. The interim condensed consolidated financial statements do not include all information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at 31 December 2016. They mainly focus on new activities, events and circumstances and do not duplicate information previously reported.

Due to rounding, numbers presented throughout this report may not add up precisely to the totals provided. All ratios and variances are calculated using the underlying amount rather than the presented rounded amount.

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2016. The new or revised standards and interpretations are either not relevant or they do not have a material effect on the financial statements of the Group.

2. Net debt / refinancing

The Group is looking to reduce financial costs either by refinancing its existing debt or with capital increases. A general capital increase is not planned but authorized as well as conditional capital is reserved for strategic investors.

3. Seasonality

For the forestry operations in Brazil the first half of the year is characterized by the rainy season (January to May) during which no logs are harvested.

4. Convertible loans

The short-term convertible loan in the amount of CHF 500 000 expired in May 2017. On 18 May 2017 CHF 480 000 were converted into shares (CHF 3.20 per share) and CHF 20 000 were reimbursed.

5. Financial information by segment

The Group's reportable segments are Sustainable Forest Management Brazil, Sustainable Forest Management Gabon, Trading and Carbon & Energy.

Operating segments – 30 June 2017

in thousand EUR	Sustainable Forest Management Brazil	Sustainable Forest Management Gabon	Timber Trading	Carbon & Energy	Other ¹	Total 30 June 2017
Revenue						
Third parties	4 810	15 193	1 974	–	–0	21 977
Intersegment	210	33	–	–	–243	–
Associated and related parties	487	–	–	–	–	487
Total revenue	5 507	15 226	1 974	–	–243	22 464
Profit/(loss) on sale of fixed assets and affiliates	11	23	–	–	–	34
Share of profit/(losses) of associates	–57	–	–	–	–	–57
EBITDA	–60	5 273	220	–0	–1 351	4 081
Segment assets	22 888	43 684	3 148	70	428	70 218
Segment liabilities	49 159	32 323	1 096	187	–31 533	51 232

¹ The eliminations and adjustments consist of the inter- and intrasegment eliminations and the results from Precious Woods Holding Ltd, the Luxembourg entities and Precious Woods Management Ltd, which are not allocated to a specific segment.

Operating segments – 30 June 2016

in thousand EUR	Sustainable Forest Management Brazil	Sustainable Forest Management Gabon	Timber Trading	Carbon & Energy	Other ¹	Total 30 June 2016
Revenue						
Third parties	5 291	13 800	1 045	366	–	20 502
Intersegment	523	42	–	–	–565	–
Associated and related parties	395	–	–	–	–	395
Total revenue	6 209	13 842	1 045	366	–565	20 897
Profit/(loss) on sale of fixed assets and affiliates	4	–	–	–	0	4
Share of profit/(losses) of associates	–56	–	–	–	–	–56
EBITDA	1 689	3 207	80	97	–1 269	3 804
Segment assets	23 556	40 988	1 999	–23	3 388	69 908
Segment liabilities	47 732	30 964	686	183	–30 591	48 974

¹ The eliminations and adjustments consist of the intersegment eliminations and the results from Precious Woods Holding Ltd, the Luxembourg entities and Precious Woods Management Ltd, which are not allocated to a specific segment.

Reconciliation of reportable segment profit or loss

in thousand EUR	30 June 2017	30 June 2016
Total EBITDA for reportable segments	5 489	5 129
EBITDA Other	–1 351	–1 269
Share of profit/(losses) of associates	–57	–56
EBITDA	4 081	3 804
Depreciation, amortization and impairment	–2 252	–2 467
EBIT	1 829	1 337
Financial income and expenses	–1 269	–1 752
Earnings before tax	560	–415

6. Subsequent events

There were no significant events after the reporting period.

Additional information

Relating to the share register (entries, transfers, changes of address, etc.):

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Stock exchange listing

The shares of Precious Woods Holding AG were listed on the SIX Swiss Exchange between 18th March 2002 and 9th August 2013. Since 12th August 2013, the shares are traded over the OTC ZKB platform. You find further information on our website under www.preciouswoods.com.

Share type: registered share
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Cautionary note on forward-looking statements: This Half-Year Report contains forward-looking statements that reflect Precious Woods' current views with respect to future events. These forward-looking statements are based on assumptions and involve risks and uncertainties with regard to future global economic conditions, foreign exchange rates, regulatory rules, market conditions, environmental factors, the actions of competitors and other factors. These risks and uncertainties could cause actual results to differ materially from those contained in the forward-looking statements. Precious Woods does not assume any obligation, to update information or forward-looking statements set forth in this document.

The Precious Woods Half-Year Report is available in both German and English. The English text is the binding version.

► **Front- and Backcover:**

Photographing of brasilian Forest



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